Pet 6 Libya
XR Pet 3 OPEC

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EXCISE

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ACTION E-04

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CIAE-00 NSAE-00 L-02 H-01 OEP-01 P-01 PRS-01 USIA-04
PM-03 JUS-01 RSR-01 RSC-01 /079 W
098229

P R 111117Z JAN 71
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC PRIORITY 7269
INFO AMEMBASSY BENGHAZI
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY THEHAGUE

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY cj DATE 6/18/81
PORTIONS DENIED AS INDICATED

C O N F I D E N T I A L SECTION 1 OF 2 TRIPOLI 049

LIMDIS

SUBJECT : LIBYAN OIL NEGOTIATIONS

REFERENCE: STATE 3406 (NOT SENT PARIS)

Pet 6 Libya
XR Pet 3 OPEC

1. SUMMARY: LARG PRESENTED EXTREME FINANCIAL DEMANDS TO OCCIDENTAL AND BUNKER HUNT IN OPENING SESSION OF NEW OIL TALKS JAN 9. LARG'S STRATEGY APPEARS TO FOLLOW PATTERN OF INTENSE CONFRONTATIONS WITH INDIVIDUAL OIL COMPANIES SET IN 1970 TALKS. OCCIDENTAL ESTIMATES NEW DEMANDS WOULD ADD AT LEAST 49 CENTS TO ITS COSTS AND TO LARG'S REVENUE PER BARREL. BOTH SIDES ACKNOWLEDGE MIDDLE EAST-RELATED POLITICAL CONTENT IN THESE DEMANDS, AND LARG HAS INDICATED NO WILLINGNESS TO SEEK COMPROMISE OR TRUE NEGOTIATION. LARG IS SEEKING TO EXPLOIT, FOR ECONOMIC GAIN AND POLITICAL ADVANTAGE, DIVISIONS AMONG COMPANIES AND GULF BETWEEN COMPANIES AND CONSUMERS WHICH HAS WIDENED AS RESULT OF ITS EARLIER SUCCESS. [redacted] EMBASSY IS DEVELOPING RECOMMENDATIONS ALONG THIS LINE. END SUMMARY.

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2. OCCIDENTAL AND BUNDER HUNT MET SEPARATELY FOR FIRST ROUND OF NEW OIL TALKS WITH LARG TEAM HEADED BY DEPUTY PRIMIN JALLUD, AND INCLUDING MINPET MABRUK AND U/S QIBLAWI, AS SCHEDULED JAN. 9. OXY TEAM CONSISTED OF LOCAL MANAGEMENT REPS LED BY SOLE OUTSIDE PARTICIPANT, OXY VICE CHAIRMAN WILLERS, FOR WHOM THIS WAS FIRST VISIT TO LIBYA. BUNKER HUNT REPRESENTED ONLY BY BENGHAZI-BASED LOCAL MANAGER. WE HAVE BEEN GIVEN DETAILED REVIEW OF TALKS BY [redacted] B4

3. [redacted] OXY, WHICH MET FIRST, B4
INITIALLY WAS GIVEN SIX HOURS IN WHICH TO CONSIDER LARG'S DEMANDS. OXY REFUSED TO RESPOND UNDER SUCH PRESSURE AND

GRUDGINGLY WAS GIVEN ONE WEEK--WITH COMMENT THAT LARG WISHED TO FINISH TALKS QUICKLY AND EACH COMPANY COULD NOT EXPECT TO BE GIVEN WEEK TO REPLY, SINCE THERE WERE MORE THAN 20 TO BE DEALT WITH. OXY AND HUNT SCHEDULED FOR SECOND MEETING JAN. 16.

4. PARALLELING EMBASSY'S PREVIOUS REPORT, LARG'S DEMANDS ARE:

A. TAXES--TO BE INCREASED BY ADDITIONAL FIVE PERCENT, SINCE INCREASES WON IN 1970 ARE INTENDED TO RECOVER RETROACTIVE PAYMENTS, AND INCREASE WOULD BRING LIBYAN TAX RATE INTO LINE WITH OPEN DEMAND.

B. TRANSPORTATION ALLOWANCE: (1) PAYMENT OF SUEZ PREMIUM BASED UPON 39 1/2 CENT POSTED PRICE ADJUSTMENT FROM JUNE 1967, LESS VALUE OF SUSPENDED OPEC DISCOUNTS WHICH ARE TO BE ZERO AS ON JAN. 1971 (INCLUDING ONE-HALF CENT MARKETING ALLOWANCE), IN ACCORDANCE WITH DECEMBER OPEC RESOLUTIONS. SUEZ PREMIUM TO REMAIN IN EFFECT UNTIL CANAL REOPENED. (2) ADDITIONAL POSTED PRICE ADJUSTMENT OF 30 CENTS TO EQUATE LIBYAN POSTINGS WITH THOSE OF OTHER SHORT-HAUL CRUDE SUPPLIERS (I.E. IRAQ AND NIGERIA), WHOSE PRICES WERE INCREASED LAST FALL. (COMMENT: WHILE NOT ENTIRELY CLEAR, IT APPEARS THAT THIS LATTER ADJUSTMENT IS INTENDED TO BE RETROACTIVE TO MAY 1970, WHEN SUPPLY OF SHORT-HAUL CRUDE BECAME RESTRICTED).

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C. REINVESTMENT--COMPANIES TO PAY INTO INVESTMENT ACCOUNTS IN LIBYA 25 CENTS PER BARREL OF CRUDE EXPORTED, FROM WHICH THEY WOULD DRAW TO FINANCE EXPLORATION OPERATIONS AND/OR DEVELOPMENT PROJECTS. (COMMENT: MINPET MABRUK REPORTEDLY SAID AT FIRST THAT PAYMENT WOULD BE AT RATE OF 25 PERCENT OF OPERATING PROFIT, BUT LATER SHIFTED TO FLAT CHARGE OF 25 CENTS/B. COMPANIES CONCLUDE THIS INDICATES LARG FIRMLY BELIEVES COMPANIES PROFITS AVERAGE $1.00/B [redacted] B1

[redacted].

D. PAYMENTS ACCELERATION--TAX AND ROYALTY PAYMENTS TO BE MADE ON MONTHLY BASIS "IMMEDIATELY"--WITH REGARD TO 1968 AGREEMENT FOR GRADUAL ACCELERATION TO QUARTERLY BASIS, WHICH IS TO BE COMPLETED AT END 1971. (COMMENT: SINCE BOTH OXY AND HUNT ARE INDEPENDENT COMPANIES SELLING CRUDE MAINLY ON CONTRACT UNDER 60 DAY PAYMENT TERMS, THEY ARGUED TAXES WOULD BE COLLECTED BEFORE PAYMENTS RECEIVED FROM CUSTOMERS. LARG TEAM TOOK NO NOTICE OF THIS ARGUMENT).

E. COST OIL AND GAS SUPPLIES--COMPANIES ARE TO MEET ALL OF LIBYA'S REQUIREMENTS FOR CRUDE OIL AND GAS--WHETHER FOR CONSUMER OR INDUSTRIAL USE-AT PRODUCTION COST BY PRO-RATING EXPENSE OF THIS CONCESSION ACCORDING TO PRODUCTION LEVELS.

5. DISPIRITED REPRESENTATIVES OF BOTH COMPANIES LEFT EVENING OF JAN. 9 TO REPORT TO THEIR HEADQUARTERS. OXY SOURCE NOTED COMPANY ESTIMATES TAX AND POSTED PRICE INCREASES ALONG WOULD RAISE PAYMENTS TO LARG BY ABOUT 49 CENTS/B. SOURCE ALSO REVEALED THAT [redacted] B4

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PM-03 JUS-01 RSR-01 RSC-01 /083 W
098621

P R 111117Z JAN 71
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC PRIORITY 7270
INFO AMEMBASSY BENGHAZI
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY THEHAGUE

C O N F I D E N T I A L SECTION 2 OF 2 TRIPOLI 049

LIMDIS

[redacted]

6. COMMENT: [redacted] B1

7. (INTERESTINGLY, THE PRIME MOVER BEHIND LARG'S SUCCESSSFUL

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1970 PRICE NEGOTIATIONS, MAHMUD MAGHRABI, IS ABSENT FROM CURRENT ROUND--AND HE REPORTEDLY IS ABSENT FROM LIBYA AS WELL. HOWEVER, GROUNDWORK HE LAID IN 1970 NEGOTIATIONS IS SUSTAINING JALLUD AND COMPANY, WHO HAVE PROVED TO BE APT STUDENTS. WHILE CURRRNT DEMANDS CONTAIN POLITICAL ELEMENT, THEY ARE RELATED TO ECONOMIC ARGUMENTS USED BY MAGHRABI IN EARLIER TALKS. THEREFORE, WHILE SUEZ PREMIUM THEORY MAY HAVE BEEN PROMOTED FROM CAIRO, IT IS EQUALLY LIKELY THAT ARGUMENTATION FOR REINVESTMENT AND FOR SUPPLY OF COST OIL AND GAS FOR LIBYAN USE WAS DEVELOPED WITH ALGERIAN ASSISTANCE--WHILE MOST OF LARG'S PACKAGE IS SUPPORTED BY OPEC DEMANDS. [redacted] B1

8. WE ARE FORMULATING OUR RECOMMENDATIONS [redacted] B5

AND WILL PRESENT THESE AS SOON AS POSSIBLE. GP-4.
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